THE "BALTIMORE PLAN" OF BANK-ISSUES.

THE modifications proposed in the meeting of the American Bankers' Association, October 11, 1894, to the National Banking Act, and known as the "Baltimore Plan," because it was presented as the views of the banks composing the Baltimore Clearing House Association, are as follows:

Section 1. The provision of the National Banking Act, requiring the deposit of bonds to secure circulating notes hereafter issued, shall be repealed.

Section 2. Allow the banks to issue circulating notes to the amount of fifty per centum of their paid-up, unimpaired capital, subject to a tax of one-half of one per centum per annum upon the average amount of circulation outstanding for the year; and an additional circulation of twenty-five per centum of their paid-up, unimpaired capital, subject both to the tax of one-half of one per centum per annum, and to an additional heavy tax per annum upon the average amount of such circulation outstanding for the year; said additional twenty-five per centum to be known as "Emergency Circulation."

Section 3. The tax of one-half of one per centum per annum upon the average amount of circulation outstanding shall be paid to the Treasurer of the United States as a means of revenue, out of which the expenses of the office of the Comptroller of the Currency, the printing of circulating notes, etc., shall be defrayed.

The excess over one-half of one per centum of the tax imposed upon the "Emergency Circulation" shall be paid into the "Guarantee Fund," referred to in Section 6.

Section 4. The banks issuing circulation shall deposit and maintain with the Treasurer of the United States a "Redemption Fund" equal to five per centum of their average outstanding circulation, as provided for under the existing law.

Section 5. The redemption of the notes of all banks, solvent or insolvent, to be made, as provided for by the existing law.

Section 6. Create a "Guarantee Fund" through the deposit by each bank of two per centum upon the amount of circulation received the first year. Thereafter impose a tax of one-half of one per centum upon the average amount of outstanding circulation, the same to be paid into this fund until it shall equal five per centum of the entire circulation outstanding, when the collection of such tax shall be suspended, to be resumed whenever the Comptroller of the Currency shall deem it necessary.

The notes of insolvent banks shall be redeemed by the Treasurer of the United States, out of the "Guarantee Fund," if it shall be sufficient, and if not sufficient, then out of any money in the Treasury, the same to be reim-

bursed to the Treasury, out of the "Guarantee Fund," when replenished either from the assets of the failed banks or from the tax aforesaid.

National Banking associations, organized after this plan shall have gone into operation, may receive circulation from the Comptroller of the Currency, upon paying into the "Guarantee Fund" a sum bearing the ratio to the circulation applied for and allowed that the "Guarantee Fund" bears to the total circulation outstanding, and to be subject to the tax of one-half of one per centum per annum, as called for by the Treasurer of the United States for the creation and maintenance of this Fund.

No association or individual shall have any claim upon any part of the money in said "Guarantee Fund," except for the redemption of the circulating notes of any insolvent National Banking association. Any surplus or residue of said "Guarantee Fund" which may be hereafter ascertained or determined by law, shall inure to the benefit of the United States.

Section 7. The government shall have a prior lien upon the assets of each failed bank and upon the liability of shareholders, for the purpose of restoring the amount withdrawn from the "Guarantee Fund" for the redemption of its circulation, not to exceed, however, the amount of the failed bank's outstanding circulation after deducting the sum to its credit in the "Redemption Fund" (Section 4), already in the hands of the Treasurer of the United States.

Section 8. Circulation can be retired by a bank at any time upon depositing with the Treasurer of the United States lawful money in amount equal to the sum desired to be withdrawn, and, immediately upon such deposit, the tax indicated in Sections 2, 3, and 6 shall cease upon the circulation so retired.

Section 9. In the event of the winding up of the business of a bank by reason of insolvency, or otherwise, the Treasurer of the United States, with the concurrence of the Comptroller of the Currency, may, on the application of the directors, or of the liquidator, receiver, assignee, or other proper official, and, upon being satisfied that proper arrangements have been made for the payment of the notes of the bank and any tax due thereon, pay over to such directors, liquidator, receiver, assignee, or other proper official, the amount to the credit of the bank in the "Redemption Fund," indicated in Section 4.

THE "BALTIMORE PLAN" is aimed solely at a question of note-issues. (1) As regards existing requirements for immediate redemption of notes practically no change is proposed. The existing five per centum "Redemption Fund" held in Washington from which mutilated and other notes are redeemed is not modified; and, of course, notes are still to be redeemed by issuing banks. (2) As regards the ultimate redemption of notes a complete change is proposed. The ultimate

security of the notes is to be wholly changed. Instead of setting aside one particular part of the assets of a bank, in the form of United States bonds, as a special security for the notes, as now, the Government is to recoup itself for redeeming all notes of a failed bank, first, out of a "Guarantee Fund" amounting to five per centum of the entire circulation outstanding, secondly, out of a prior lien on *all* the assets of the failed bank, and, thirdly, if necessary, out of the liability of shareholders. The difference is that the security actually held in the hands of the Government is changed from bonds amounting to more than the value of the notes to a Guarantee Fund of five per centum of their value; but the Government is to be given a lien on a sum beyond the Guarantee Fund much larger than the existing bond security. This larger sum, however, is not in the possession of the Government, as are the bonds. But the Guarantee Fund, being five per centum of all outstanding circulation, would, at the present figures, amount to more than $10,000,000, and would be sufficient to cover the usual note-circulation of any individual bank likely to fail.

To fix the amount of circulation, however, by a percentage of capital is a mere formality. The amount of capital is no measure whatever of a bank's assets. The Chemical Bank of New York, for instance, with a nominal capital of $300,000, has in its assets not only $4,000,000 or more of specie, but assets in the form of business paper amounting, perhaps, to $15,000,000 or more. These last assets are the very best protection, if the note-holder has a first lien upon them before the depositor. The real security, then, for the notes in the new plan is not to be measured by the percentage the notes bear to the "unimpaired paid-up capital." In truth, the notes would be secured by a vastly greater sum than under the existing bond system,—a sum varying roughly with the discounts of the banks. Today the notes are secured by only a part of the assets; under the new plan they are to be secured by *all* the assets (and the shareholder's liability beside). There can, therefore, scarcely be any question raised as to the sufficiency of the security for the ultimate redemption of the notes.

Objection might be raised by the depositor against giving the note-holder a prior claim on *all* the assets. A deposit is an immediate liability as well as a note, and the two claims may seem nearly equal; and it may seem too much like favoring the note-holder to give him so sweeping a protection. Certainly, the proposition goes out of its way to guard the note-holder. But, after all, this is wholly just. The

local depositor must be expected to look out for himself; while the innocent stranger, often in another state, must be absolutely protected in the value of the money which passes from hand to hand. With the latter, instant convertibility and ultimate safety are primary requisites. And these, it would seem, are fully met in the new plan.

There appears to be no means supplied in the proposed scheme by which the "Emergency Circulation," when once out, can be rapidly withdrawn by the issuer. The deposit of lawful money, as now, will, of course, contract the circulation; but the actual notes of the "Emergency Circulation" must stay out until they come in, as now, by the usual slow process. This makes it evident that the special kind of note used for the "Emergency Circulation" must not vary materially in kind and form from the other issues. They may be so made as to be identified; but while out (even though paying no tax) they must serve the same functions as other bank issues.

It should be understood, moreover, how inadequate this plan for an "elastic" note-issue is to solve all the difficulties arising at a time of financial stress such as that of 1893. Probably the authors of the scheme did not expect to do so much. But no mention is made of our dangerous method of cutting off accommodation when the reserve has reached the legal amount, or thereabouts. Just at the critical moment, to refuse to discount is to aggravate the situation; and so long as a legal amount of reserve is fixed, and we are forbidden to raise the rate of discount to a point sufficient to ward off needless demands, the situation is sure to become more excited and tense. To obviate such dangers the issue of more notes is only a *pis aller*. The law of banking self-preservation will maintain a proper reserve; and banks should be free to change the rate of discount unhampered by all usury laws. Publicity of accounts is, in all cases, the essential protection for inadequate reserves.

At all events, the consideration solely of note-issues as a means of producing an "elastic currency" does not cover the whole ground. The proposed scheme is, of course, a vast improvement over the present restricted system of issuing notes based on a bond security; but in any real sense the deposit-currency is today perfectly elastic, rising and falling with the work to be done, and actually performing today more than ninety per cent. of all transactions. The "Baltimore Plan," therefore, is intended to meet only the changing needs of the community, in normal times, for actual money which passes from hand to

hand in retail transactions and small dealings. In abnormal times, when a financial crises has arrived, and when forced liquidation is going on, everyone wishes actual money and means of payment. At such times, the ability to increase that liability which is the general promise to pay on demand (instead of the deposit-liability which is also a demand-liability) may be of no little assistance; but it is not the means of changing the whole face of matters. It is good so far as it goes, but it must not be supposed that it will do all that needs to be done in the stress of a financial crisis.

J. LAURENCE LAUGHLIN.